

DEPARTMENT OF TREASURY



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The Office of State Treasurer is provided for by Article V, Section 3, of the Michigan Constitution of 1963. The State Treasurer is appointed by the governor, with the advice and consent of the senate, and serves at the pleasure of the governor.

The department was established by the Executive Organization Act of 1965, as a result of merging the operations of 6 agencies: State Treasurer, Department of Revenue, Municipal Finance Commission, Board of Tax Appeals, State Tax Commission, and Auditor General (except the state audit function). In addition, the Board of Equalization and Board of Escheats were abolished and their functions were absorbed by the new department.

Effective July 1, 1984, the Municipal Finance Commission was abolished, which transferred all powers and duties to the State Treasurer. Effective August 1991, the Michigan Tax Tribunal was transferred to the Department of Commerce (now Licensing and Regulatory Affairs) pursuant to Executive Order No. 1991-18. Effective May 1992, the Michigan Higher Education Facilities Commission and Michigan Higher Education Facilities Authority were transferred from the Department of Education to the Department of Treasury pursuant to Executive Order No. 1992-2. Effective April 8, 1995, the Michigan Higher Education Assistance Authority and Michigan Higher Education Student Loan Authority were transferred from the Department of Education to the Department of Treasury pursuant to Executive Order No. 1995-3. Effective January 1, 2000, all administrative responsibilities related to statewide educational assessments were transferred from the Department of Education to the Department of Treasury pursuant to Executive Order No. 1999-12. Effective December 21, 2003, the administration of the Michigan Educational Assessment Program (MEAP) tests was transferred to the Superintendent of Public Instruction. Effective March 4, 2010, 10 public finance authorities were consolidated into one, Michigan Finance Authority, an autonomous entity within Treasury, pursuant to Executive Order 2010-2.

The State Treasurer acts as principal advisor to the governor on tax and fiscal policy issues. The State Treasurer is the chairperson of the Michigan Education Trust and the Michigan Finance Authority. The State Treasurer serves as sole investment fiduciary to the judges, public school employees, state employees, and state police retirement funds. The State Treasurer also serves as treasurer of the retirement systems, the Legislative Retirement System, and the Mackinac Bridge Authority. The State Treasurer is also a member of the following boards, commissions, and task forces: Local Emergency Financial Assistance Loan Board, Michigan Early Stage Venture Investment Corporation, Michigan Economic Growth Authority, Michigan Judges/State Employees/State Police Retirement Boards, Michigan State Housing Development Authority, Michigan Strategic Fund, and the State Administrative Board.

Executive Office

Operational responsibilities of the department are handled by the **Executive Office**, which consists of the State Treasurer, the Chief Deputy Treasurer, Deputy Treasurers for Financial and Administrative Services, Investments, Local Government Services, State and Authority Finance, and Tax Administration. The Bureau of Executive Operations (Budget, Communications, Continuous Improvement/Engagement, and Legislative Affairs Divisions) and the Office of Legal Affairs are also housed within the Executive Office.

Chief Deputy Treasurer

The **Chief Deputy Treasurer** oversees all operations within the Department of Treasury. Deputy Treasurers for Financial and Administrative Services, Local Government Services, State and Authority Finance, and Tax Administration report to the Chief Deputy Treasurer, as does the Office of Legal Affairs and the Office of the Taxpayer Advocate. The Deputy Treasurer for Investments and the Director of the Bureau of Executive Operations report to the State Treasurer.

Investments

Pursuant to state law, the State Treasurer is the sole investment fiduciary and custodian for the State of Michigan Retirement Systems (SMRS), as well as other state trust and agency funds.

Total defined benefit pension assets managed as of December 31, 2014, were \$60.7 billion, making the SMRS the 19th largest defined benefit, public pension fund in the United States. The SMRS includes the Michigan Public School Employees' Retirement System, Michigan State Employees' Retirement System, Michigan State Police Retirement System, and Michigan Judges Retirement System. The SMRS services a total of more than 515,000 members (as of September 30, 2014), which includes vested working employees and retired members.

The State Treasurer is also responsible for investing state operating and other state trust and agency funds with assets in excess of \$14.2 billion. This includes investment oversight, with advice from the Department of Technology, Management and Budget (DTMB), of the \$6.6 billion 401K and 457 plans.

The Bureau of Investments performs all investment functions and associated accounting functions on behalf of the State Treasurer. The SMRS investment portfolio is diversified and includes domestic and international stock exposure, corporate and government bonds, real estate, and alternative investments. The bureau is organized by major investment disciplines as follows: Private Equity Division; Short Term Absolute and Real Return Division; Long-Term Fixed Income Division; Real Estate and Infrastructure Division; Quantitative Analysis Division; Defined Contribution, Trust and Agencies Division; and Stock Analysis Division. The Trust Accounting Division works directly with each division and accounts for and settles investment transactions on a daily basis. The Compliance and Corporate Governance Division is responsible for overseeing (i) the timely filing of all proof of claim forms for securities litigation; (ii) timely voting of proxies; (iii) compliance with divestment mandates; and (iv) disclosure events of external managers. Public Act 380 of 1965 created an Investment Advisory Committee, which is charged with reviewing investments, goals, and objectives of each of the retirement funds. Members may make recommendations to the State Treasurer.

The bureau's primary goal is to invest each fund prudently, taking into account the purpose of a particular fund. Therefore, asset allocations differ between funds depending upon the type of liability structure or purpose for a particular fund.

Tax Administration

The **Tax Policy Division** helps ensure the consistent application of existing departmental policies, as well as identifying and developing needed new policies. Policies are usually of a tax-technical nature and relate to other revenue bureaus in the areas of Tax Compliance, Customer Contact, and Return Processing. The Tax Policy Division provides guidance pertaining to tax statutes through the drafting of Revenue Administrative Bulletins, Internal Policy Directives, and technical advice letters. The division also provides support to the Office of Legislative Affairs by providing bill language and bill analyses, when needed. It also provides support to the Attorney General staff in substantive tax litigation as it relates to their understanding and presentation of departmental tax policies.

The **Hearings Division** provides informal conferences mandated by the Revenue Act on disputed tax matters, including assessments, credit audits, and refund denials. Informal conferences are also provided for Principal Residence Exemption denials. Decisions are signed on behalf of the State Treasurer by the Division Administrator. Decisions and orders issued by the division are subject to further appeal to the Michigan Tax Tribunal or Court of Claims as provided by statute.

The **Tax Processing Bureau** is responsible for reviewing and processing all major Michigan tax returns and related forms. Annually, more than 8 million individual and business tax returns are processed by the Bureau. All tax returns are reviewed for accuracy. The review may result in the issuance of refunds, requests for additional information, adjustments, or assessments as appropriate. The Bureau also administers certain licensing functions, registers taxpayers, engages in quality

assurance controls and responds to millions of taxpayer inquiries received through correspondence, phone calls, and web-based contacts. Tax Processing includes four divisions: Business Taxes, Income Tax, Special Taxes, and Support Services.

The **Taxpayer Advocate** serves as an ombudsman within the Department of Treasury to respond to taxpayer issues that have not been resolved through normal Treasury processes. The office works to clarify taxpayer issues and to provide resolution to the taxpayer's concerns. The Advocate also has authority to review and grant requests for penalty waivers within guidelines established by the Department. The Taxpayer Advocate serves as the referral point for taxpayer issues that come to the Treasury Executive and legislative offices. Using information gathered in the resolution of customer inquiries, the Taxpayer Advocate provides feedback to other areas of the Department in order to improve customer services.

The purpose of the **Tax Compliance Bureau (TCB)** is to increase compliance with State of Michigan tax statutes while concurrently providing improved customer service by effectively managing the Taxpayer Bill of Rights. The TCB combines an audit function with Discovery and Tax Enforcement functions and is comprised of four divisions, including Field Audit, Discovery and Tax Enforcement, and Operations. The Michigan Department of Treasury administers tax programs in a manner that recognizes that most taxes are reported and paid through a voluntary compliance system, with no direct enforcement and minimal interaction between Treasury and taxpayers. Compliant taxpayers effectively make up for the shortfall caused by non-compliant taxpayers that do not pay or under report tax.

The **Office of Tax Implementation** is responsible for implementing new taxes in coordination with the DTMB and state vendors. Additionally, the Office facilitates system modifications required as a result of legislative or year-end changes. The Office of Tax Implementation works with DTMB and state vendors to migrate the existing major taxes from the legacy tax processing systems onto a common tax processing platform.

The **Office of Revenue and Tax Analysis (ORTA)** is the forecasting, revenue analysis, and local government revenue sharing section of the Michigan Department of Treasury. ORTA advises the Governor, Lieutenant Governor, Treasurer, and State Budget Director on issues dealing with the economy, revenues, and the State's tax structure, and is responsible for preparing the official economic forecast and revenue estimates for the administration. ORTA also represents the administration at the Consensus Revenue Estimating Conferences. In addition to estimating revenues generated by State taxes, fees, and other sources, ORTA is also responsible for estimating and analyzing the cost of existing tax exclusions, deductions, exemptions, and credits, and the potential fiscal implications of legislatively proposed tax law changes. ORTA also administers and distributes more than \$1 billion annually to local governments through the constitutional revenue sharing program; City, Village and Township Revenue Sharing Program (CVTRS); County revenue sharing programs; Financially Distressed City, Village and Township Grant Program (FDCVT); Convention Facility Development Fund; Airport Parking Tax; Health and Safety Fund; and the Emergency 911 Fund.

Financial and Administrative Services

The **Financial and Administrative Services** mission is to provide and maintain effective and efficient services for internal and external customers, taxpayers and citizens of Michigan through Accounting Services, Collections, Departmental Services, Financial Services, and Privacy and Security.

The **Office Accounting Services (OAS)** is responsible for overall monitoring and control of the department's accounting system. This includes systems evaluations, security, and assignment of special projects. The Office is responsible for issuing payments in lieu of taxes for certain eligible senior citizen facilities and DNR-owned State land. Staff oversees the processes related to Treasury's Central Control Agency function.

The **Office of Collections (OC)** is responsible for the centralized collection of all overdue assessed taxes administered by Treasury and delinquent, non-tax debts owed to State agencies, including oversight of a private collection agency contract. The Office also administers the service of garnishments and legal offset orders served on the State Treasurer. The Office of Collections is also responsible for administering the Tobacco Products Tax Act to ensure that taxpayers comply with proper reporting and payment of taxes, along with other statutory requirements related to tobacco products.

The **Office of Departmental Services (ODS)** oversees Facility, Mail and Data Operations functions, Unclaimed Property, Purchasing, and Forms, Documentation and E-File Services. This office is also responsible for management of the department's relationship with the Office of Internal Audit

Services and the Office of the Auditor General and facilitates completion of the Bi-Annual Internal Control Evaluation process. ODS also manages Treasury's real estate leases and maintains building occupancy agreements.

The **Office of Financial Services (OFS)** serves as the central service agency to all state agencies for the administration of all statewide banking activity, related banking contracts, cash receipting and disbursements. The Office administers the receipting of a majority of state and federal funds. The Office also manages the disbursement of State funds including wire transfers, warrants, Electronic Funds Transfers (EFT), payment adjustments (e.g., cancels, undeliverables, reversals, stop payments), and forgery claims.

The **Office of Privacy and Security (OPS)** establishes policies and enforces practices to ensure the privacy, confidentiality, integrity, and availability of information collected, used, and retained by the Department through prevention, detection, and enforcement practices in compliance with applicable laws, regulations, standards and industry best practices. The OPS administers the disclosure provisions of the Revenue Act, Internal Revenue Code 6103 and other applicable laws for securing and protecting confidential information of the Department.

Bureau of State and Authority Finance

The bureau coordinates the issuance of state and authority bonds and notes, including State General Obligation issues, assists the State Treasurer in managing the State's Common Cash and Cash Flow Activity, compliance with federal tax laws, and SEC disclosure requirements. The bureau performs fiscal agent and trust services for various bond issues and public finance programs, carries out oversight of compliance with the Federal Cash Management Improvement Act (CMIA) requirements for drawing federal funds, and administers the state's School Bond Qualification and Loan Program.

The **Michigan Finance Authority (MFA)** was established by Executive Order 2010-2 to further improve efficiency in state government by consolidating 10 public finance authorities into one. The MFA offers effective, low-cost financing to public and private entities that provide essential services to the citizens of Michigan. These include municipalities; healthcare providers; public, private, and charter schools; and higher education loans to college students.

The **State Building Authority (SBA)** provides capital financing to acquire, construct, furnish, equip, and/or renovate buildings for the use of the state, including public universities and community colleges pursuant to Act 183 of 1964. Since its creation, the SBA has financed approximately 300 projects, approaching \$5.1 billion in construction costs. SBA bond issues permit the construction of needed capital outlay projects, which otherwise might be delayed or canceled due to state fiscal constraints, by spreading costs over a portion of the project's useful life. In addition to capital outlay financing, the SBA houses non-employee risk management functions for the state. It provides state agencies with commercial property, general liability, aviation, and builder's risk insurance, as well as other needed insurance coverage. The SBA also administers the state's Vehicle Self-Insurance Fund, which covers liabilities arising from accidents involving the state vehicle fleet, which numbers in excess of 10,000 vehicles.

Student Financial Services Bureau

The Student Financial Services Bureau is comprised of three divisions: Student Scholarships and Grants, 529 College Savings Plans, and the Student Loan Repayment Programs.

The 529 College Savings Plans Division includes the **Michigan Education Trust (MET)** which provides a method for families to pre-pay a student's future Michigan college tuition costs. The trust offers contracts to purchasers, collects and invests the funds, and pays out tuition to colleges and universities when enrollees attend college. The **Michigan Education Savings Program (MESP)** was created to provide families with a flexible way to save for future education expenses through a choice of investment options and is also administered by the State Treasurer. The **Michigan 529 Advisor Plan (MAP)** provides families with a flexible way to save for future education expenses through an advisor-sold program.

The Student Scholarships and Grants Division (SSG) administers 11 state and federal aid programs that assist students with tuition and fee expenses at Michigan colleges and universities. The division also provides multiple outreach and support services to students, families and high school counselors. Programs administered include: Children of Veterans Tuition Grant (CVTG), Dual Enrollment for Private Colleges, Fostering Futures Scholarships (FFS), Michigan Competitive Scholarship (MCS), Michigan Nursing Scholarship (MNS), Merit Award, Michigan Tuition Grant (MTG), Police Officers and Fire Fighters Survivors Tuition Grant (STG), and the Tuition Incentive

Program (TIP). GEAR UP Michigan and GEAR UP College Day scholarships are federally funded programs administered at the state level.

The bureau's Student Loan Repayment Programs Division no longer issues student loans. The **Federal Family Education Loan Program (FFELP)** discontinued new loans in 2010. The State's alternative loan program, **MI-LOAN**, ceased making new loans in 2008. The division is responsible for monitoring its contracted servicer for compliance with federal laws, rules and regulations governing loans made under FFELP. It is also responsible for required federal reporting and budgeting. The **Michigan Guaranty Agency (MGA)** is the state designated guarantor for Michigan. The MGA administers guarantees of loans made by various financial lending institutions and administers its outstanding federal loan portfolio in compliance with federal laws, rules and regulations. MGA continues to provide default prevention assistance and other types of assistance to students with various issues related to the repayment of their outstanding loans.

Bureau of Local Government Services

The Bureau of Local Government Services is responsible for the administration and enforcement of state laws that implement provisions of the Michigan Constitution requiring taxation of real and tangible personal property; a uniform system of accounting and auditing for units of local government; and the preservation of the credit of the state. The bureau is responsible for the administration of Public Act 436 of 2012, the Local Financial Stability and Choice Act.

The Assessment and Certification Division provides staff services for the State Tax Commission and assistance to local county assessing officials. The State Tax Commission, which was created by 1927 PA 360, establishes the state equalized value for each class of property for each county total; prepares assessment rolls for state assessed public utilities; approves applications for exemptions for air and water pollution control facilities and neighborhood enterprise zones and for industrial property abatements; adds omitted property to local assessment rolls and corrects erroneous personal property statements under MCL 211.154; arbitrates petitions for change of classification; certifies valuation and assessment of lands purchased by the DNR; assumes superintending control over uncertified local assessment rolls; and provides general supervision of all assessing officials. The commission also provides training, examinations, and certification of assessing officials and receives and acts as revocation petitions filed against such officials, duties that were transferred to the commission by 2009 executive reorganization order that abolished the former State Assessors Board.

The Local Audit and Finance Division issues guidance and monitors statutory compliance of units of local government. Staff members perform financial audits, single audits, legal compliance audits, and internal control reviews of units of local government when requested or at the discretion of the department. Through the review of qualifying statements and prior approval applications, the division approves or denies the issuance of debt by units of local government. The division also monitors the financial position of units of local government by reviewing, approving, and monitoring deficit elimination plans as well as financial statements filed by the local governments.

The Office of Fiscal Responsibility provides local units of government with state-wide technical expertise and policy recommendations to ensure proper implementation of state and federal laws, regulations, requirements, accounting standards, and financial controls. The OFR assists local government elected and appointed officials to establish protocol and develop strategies that will help them retain strong fiscal health, and avoid financial stress or crisis. The office provides technical support to local units with a Receivership Transition Advisory Board, Emergency Manager, Consent Agreement, Neutral Condition (mediation), or Bankruptcy.

The Property Services Division administers the state's tax reversion process and conducts the foreclosure process for nine counties that have opted out of handling the process under Public Act 123 of 1999. The division also receives, reviews, and prepares, for State Tax Commission approval, applications for various tax exemption programs, such as the Industrial Facilities Tax, Air and Water Pollution Control, Neighborhood Enterprise Zone, Obsolete Property Rehabilitation, and New Personal Property. In addition, the division conducts audits of claims for the Principal Residence Exemption in counties that have opted out of conducting such audits and reviews appeals of Principal Residence Exemption denials in those counties.

Bureau of State Lottery

The Bureau of State Lottery, an autonomous entity within the Department of Treasury, was created by Public Act 239 of 1972. One-hundred percent of the profits from the Lottery go to the state School Aid Fund.

The Michigan Lottery reported annual sales of \$2.6 billion in fiscal year 2014, and generated \$742.8 million in net proceeds for the state School Aid Fund, pushing its total contributions to the School Aid Fund since 1972 to nearly \$19 billion. Retailers received commissions totaling \$188.6 million in fiscal year 2014, while Michigan Lottery players were awarded \$1.6 billion in prizes. The Bureau of State Lottery's Charitable Gaming division is responsible for the licensing and regulation of organizations operating bingo games, raffles, and selling charity game tickets.

Michigan Gaming Control Board

In November 1996, Michigan voters approved Proposal E, effectively authorizing three licensed casinos to be built in the City of Detroit. Proposal E was adopted into law as The Michigan Gaming Control and Revenue Act (Initiated Law 1 of 1996). Created by Public Act 69 of 1997, the Michigan Gaming Control Board (MGCB) is responsible for implementing, administering, and enforcing the provisions of the Initiated Law related to licensing, regulating, and collecting taxes and fees from the three authorized Detroit casinos. In calendar year 2014, the combined state wagering taxes paid by the three Detroit casinos and deposited into the School Aid Fund totaled \$108 million. The three casinos also paid \$168.7 million in wagering tax payments to the city of Detroit. MGCB's executive director also is responsible for the licensing and regulation of Michigan horse racing and charitable gaming millionaire party events and suppliers along with providing oversight of the 12 Tribal-State Compacts for the 23 Tribal casinos throughout Michigan.

